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ABSTRACT

Basic concepts concerning state-level resource allocation to higher education are discussed. Attention is directed to principles of budgeting regardless of context, the pluralistic nature of higher education, characteristics of higher education production functions, and the typical form of the budget. In addition to the distribution of resources, budgets also serve as accountability frameworks. College administrators are faced with the need to respond to several groups, each of which provides financial or other resources to the institution and each of which has some different expectations. Budgets are constructed of two basic components--a multipurpose, general component, and varied numbers of single-purpose (categorical, special) components. The multipurpose component provides support for the basic operations and programs of the institution. Since the state has to treat institutions differently, single-purpose resource allocation approaches help to achieve this objective. It is suggested that states should make explicit that they are allocating funds for specific services, and institutions should understand the expectations as a condition of receiving money. Since accountability mechanisms are not inherent in the resource allocation method, they must be constructed separately. (SW)

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Concepts and Principles for State-Level Higher Education Budgeting

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National Center for Higher Education Management Systems

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This paper was presented at the Annual Meeting of the Association for the Study of Higher Education held at the Conrad Hilton Hotel in Chicago, Illinois, March 12-14, 1984. This paper was reviewed by ASHE and was judged to be of high quality and of interest to others concerned with the research of higher education. It has therefore been selected to be included in the ERIC collection of ASHE conference papers.

Concepts and Principles for

State-Level Higher Education Budgeting

I. Introduction

In reviewing the piles of literature, studies, and descriptions of state practices regarding approaches to allocating state funds to support higher education, one can't help but be struck by the enormous diversity, and in some cases complexity, of resource allocation mechanisms and processes being employed in the several states. Examined under a microscope, these decision processes are found to consist of myriad elemental sub-decisions arrayed in complex ways, formed by a large and continually changing cast of characters, and never exactly replicated. One is also struck by other phenomena that become apparent after an immersion in the state of the art. First is the absence of attention to the basic tenets of sound budgeting practice revealed in so much of what is found in the descriptive literature. Resource allocation is revealed as non-purposive, and the accountability mechanisms normally considered to be an integral part of the follow-up to the resource allocation process are either missing or inconsistent with (and counter-productive to) the resource allocation scheme. Perhaps most importantly, one becomes very aware that state-level resource allocation approaches (as they apply to higher education) most often have been developed from an institutional perspective--they are institutional mechanisms applied at the state level rather than approaches developed expressly to reflect the state perspective regarding the allocation of resources. The mechanisms put in place to guide the state-level resource allocation process invite state-level decision-makers to treat, as policy variables, items that would otherwise be considered well within the managerial prerogatives of institutional administrators.

What is called for is a perspective on (and approach to) state-level budgeting and resource allocation for higher education that starts from the state point of view, is consistent with sound principles of both budgeting and management, and recognizes the different (and differing) characters and characteristics of higher education institutions.

If one starts out to respond to this need, it is possible to weave together a coherent conceptual picture of two independent entities--higher education institutions and state government (or its relevant components)--bound together by a series of relationships that extend beyond funding to include governance, service, and accountability relationships as well.

Over the past year or so I have been about the business of thinking through some of the conceptual underpinnings of first principles of state-level resource allocation to higher education. I am not at all sure that I have made the leap from concepts to principles, but I would like to share with you some of the notions with which I have been toying and seek your response to some of these notions.

II. The Conceptual Building Blocks

There are several basic underlying concepts that are useful and necessary building blocks for the identification of guidelines and first principles for resource allocation from states to institutions. Among these building blocks are

a. The principles of budgeting regardless of context

b. The pluralistic nature of higher education

c. Particular characteristics of higher education production functions

d. The typical form of the budget (multi-purpose and single-purpose components)

Factors and considerations regarding each of these basic building blocks serve to shape an approach to resource allocation that is based on sound principles and fits the particular context of state-level resource allocation to higher education. The balance of this section is devoted to a brief discussion of these basic building blocks. The next section attempts to derive some first principles based on these building blocks.

Principles of Budgeting

The base function of the budgeting process is to parcel out available state resources to the various functions of state government and, more specifically, to the entities charged with carrying out these functions. Many would limit their view of budgeting to this narrow view of the world. To them, budgeting is an exercise in divvying up the pie. It is a financial exercise that starts and stops with the bottom line of the appropriation. This conception of budgeting is too narrow. There are at least two other functions that budgets perform. First, budgets are the bridges between intentions and actions. They are the devices by which the states' plans are carried out and by which priorities are signalled. It must be recognized that states do support higher education systems for reasons other than habit. Some reasons are general and amorphous; others are very specific. More often than not these priorities and purposes are not explicit--written down and agreed to by the principal actors. The budget is the single mechanism through which states can reward and grant

favors to state organizations and the employees thereof in tangible and positive ways. because the budget and

the process by which it is determined are so important, procedures for calculating budgets are not value free. The fact that the values are implicit rather than explicit or that they were not considered when the calculation procedures were devised makes them neither neutral nor inconsequential. This being the case, it behooves the state to consciously choose allocation mechanisms that reinforce institutional behaviors considered as being most desirable.

This conscious choice of desirable institutional behaviors is planning. There is little evidence of "planning" being used at the state level to propose and then achieve a desirable future with regard to higher education; at best, planning has been used as a process to document an expected future.

While complete clarity about state purposes may be politically impossible to achieve, some specification is an operational necessity. To the extent that there is miscommunication or lack of understanding about the expectations and priorities of state-level decision-makers and these expectations are not met, institutional managers become susceptible to charges that their institutions are not being responsive to a major constituent and funder. This brings us to the third function of budgets.

In addition to their role in distributing resources and providing awareness of, and incentives for, accomplishing funder priorities, budgets are also accountability frameworks. Since accountability is the post facto mirror image of planning--was performance in accordance with expectation?--the utility of the budget as an accountability device is heavily dependent on the extent to

which the budget reflects funder priorities and ties funding to performance in priority areas. It must be recognized that a relationship between the resource allocation approach utilized and the ends achieved does exist whether or not that recognition is explicit. The choice is whether to start with priorities/purposes/objectives in mind and fashion the resource allocation mechanism to provide incentives for achieving those purposes or to start with a resource allocation scheme and accept the consequences of the incentive system that inevitably lurk within.

The Nature of Higher Education/the Organizational Context

Public institutions of higher education, with very few exceptions, are heavily dependent upon and influenced by state government. They are not, however, just another administrative or operating arm of state government. They are invariably established as separately organized, corporate entities with their own governance and policy-making bodies. They have a special relationship with state government and are expected to have a greater or lesser degree of independence. But this particular arrangement with state government is but one of the characteristics of higher education that affect the resource allocation process.

Higher education institutions, by design, are pluralistic bodies. They are intended to simultaneously serve the needs and purposes of multiple constituent groups. As an absolute minimum, state-supported colleges and universities have two clearly defined audiences--the individuals enrolled in the institutions as students and state government acting in response to the collective needs of the citizens of the state. Most institutions have many more constituent groups from which they receive some measure of financial support, to which they provide some kind of services, and by which they are regulated in one way or

another. Among these are federal agencies, business and industry, philanthropists, faculty and other employees, etc.

Thus, while state government is a major constituent of public higher education, it is by no means the only constituent. College administrators are faced with the necessity of simultaneously responding to several groups, each of which has provided financial or other resources to the institution and each of which has an (at least slightly) different set of expectations. As a result, whatever budgeting processes are put in place by the state must serve the state's needs but not obviate the institutions' abilities to respond appropriately to the other clientele groups that may have a small--but nevertheless important--financial stake in the enterprise.

Second, of these various constituents, state government is the funder that must concern itself with the ongoing viability of the public system of higher education in the state. No other client group has a material interest in the investment component of support; others are better viewed as purchasers of services. Indeed, it is the public responsibility for the development and maintenance of the institutional asset that marks the primary difference between public and independent colleges.

In this context it must be realized that there is an interrelationship between the level of governance control enforced by the state and the willingness of other participants to provide support to the enterprise. The more a state insists on exercising detailed managerial control of the institution the less incentive for the other stakeholders to provide substantial levels of support. The state philosophy regarding level of control placed on public institutions as well as state purposes and objectives shaped the budgeting process. Indeed, the two notions work in tandem to reinforce a particular approach. Tight state

control goes hand in hand with procedural (operational) purposes and leads almost inevitably to line-item budgeting and a finance-oriented accountability system. Less rigid state control at least allows the incorporation of more ends-oriented purposes; and can lead to incorporation of more ends-oriented budget schemes and accountability mechanisms that focus more on services rendered and accomplishment of objectives. Structural and philosophic forces provide the environment within which the approach to budgeting must be devised.

Educational Production Functions

While the environment for higher education within a state does much to shape a budgeting process that is workable, the inner workings of the enterprise also weigh heavily. Central is the "technology" of education--production functions that are loosely defined, making budgeting more difficult on the one hand but allowing for social efficiencies on the other. It is a fact of life that most educational outcomes can be produced in a variety of ways. Instruction can occur through large lectures or small seminars, face to face, or through employment of any number of alternative media. The alternative of which production function to employ is a function of preferences, of skills of individual faculty, of availability of facilities, equipment and other resources, and of the array of the need to allocate available resources to a variety of activities that serve the current set of constituents. There are no absolutes that lead to a prescription of how best to go about the business of education. Selection of an approach turns more on tradition, values, and preferences than on any heretofore well defined, most effective way of conducting the central functions of the academy. This circumstance is at the core of many of the problems that surround the determination of an appropriate or adequate level of state support for public higher education. Unlike some

industries there is no technologically induced "standard cost." The determination of what it should cost to carry out instructional activities is made, if at all, through consensus and retrospective analysis of the consequences of prior years' preferences rather than on any hard and fast relationship between inputs and outputs. While the loosely defined production functions that characterize higher education create many potential hassles both inside and outside the institution, they also allow for creative use of resources and the possibilities for conducting programs and activities in such a way that multiple clients can be satisfied at costs that are probably less than would be the case if each beneficiary would pay the full cost of benefits received. The art of managing institutions of higher education is very much the art of selecting or creating that set of activities that will simultaneously achieve diverse purposes at least cost--in short, to achieve joint products to the fullest extent possible. The development of budgeting and accountability mechanisms that dictate operational decisions and abridge flexibility are probably not in the best interests of the funder.

The Structure of the Budget (Multi-Purpose and Single-Purpose Components)

It is recognized that there are at least as many formulations of state higher education budgets as there are states. The myriad unique approaches that have been contrived by the states and that have evolved over time to their current form, however, can be viewed as combinations of variations on only two basic themes. Budgets are constructed of two basic components--a multi-purpose (core, general) component and varied numbers of single-purpose (categorical, special) components. The multi-purpose component is invariably the largest component and, as the label indicates, provides support for the basic operations and programs of the institution.

It is generally expected that this core allocation is made with the expectation of achieving a variety of state purposes.

1. Access to higher education opportunities

2. Economic development

3. Maintenance and enhancement of the system put in place to achieve these objectives

4. Efficiency

While the core or base funding for higher education institutions may derive from the multi-purpose component of an overall revenue allocation scheme, no state can ignore the need for special-purpose allocations of funds. This need for a variety of single-purpose allocations in addition to the multi-purpose base stems from two roots. First, states may have specific objectives or priorities for higher education that are best promoted through allocation of a special pot of money. In other cases, the state may want to create additional incentives for activities that are ongoing within institutions, but which have emerged as high priority for some reason. Second, and not totally independent of the first, are those state-level needs or priorities that may be ongoing, but which are best served by only one or two institutions. Multi-purpose allocation mechanisms create incentives for similarity rather than differentiation. The state has need to treat institutions differently, to reinforce desirable differences rather than erase those differences. Single-purpose resource allocation approaches are the mechanism through which those desirable differences can be fostered.

III. Observations and Implications

It seems to me that there are a set of principles or rules of good practice that can be constructed with these building blocks. Some of these are a repetition of such principles that are of long standing in the budgeting world. Others are more of my own concoction. Without belaboring the point, I would offer the following:

a. The principles of sound budgeting should be followed in the context of state resource allocation to higher education. The context forces adaptation but does not require abrogation. This means that the budget should be viewed as a device for achieving desirable ends and that the notion of accountability should be integrated into the resource allocation process.

   This also means that states should understand and make explicit (at least relatively more explicit) that they are allocating funds in order to achieve a set of services (outcomes from and conditions at) an institution of higher education. Institutions should understand the expectations as a condition of receiving money. In the absence of a statement or understanding of such expectations, the basis for accountability is absent.

b. The form of the budget should be in line with the governance relationship between state government and institutions. If the governance relationship is one in which institutions are viewed virtually as state agencies, then the budget approaches used elsewhere in state government may be appropriate. In such cases resource allocation focuses on line-item budgets and accountability is a

financial accountability--were the funds expended in accordance with the detailed line-item spending plan and were approved procedures (for purchasing, setting of salaries, etc.) followed?

If, on the other hand, the commonly ascribed pluralistic nature of higher education is recognized and higher education institutions are viewed by the state as entities that serve not only the state but a variety of other constituents, then a different approach to resource allocation is appropriate. In such cases the state must be more concerned with stating its expectations, allocating funds with the understanding that they will be used to achieve those expectations, and leaving the managerial responsibilities in the hands of institutional administrators.

c. For the core or multi-purpose component of the budget, accountability mechanisms must be given particular attention and, indeed, must be constructed outside the resource allocation schema. They are not inherent in the resource allocation mechanism. In the single-purpose component of the budget, it is possible to construct resource allocation algorithms that make the accountability component an integral part of the budgeting scheme. For example, a special-purpose component contrived to create incentives and rewards for preparation of particular kinds of manpower can be funded on a capitation basis. Institutions receive funds in a specified amount for each degree winner in the area of particular interest. In such a scheme, the accountability mechanism (the number of degrees granted in the field) is built directly into the allocation process. There is no separation. In the multi-purpose component, however, this is not

possible. Because of the phenomenon of "joint" products, institutions can create a set of activities that simultaneously serve multiple ends. It is possible to establish a "price" for each of these products or services rendered to sell these products or services to all constituencies including the state. That is an independent university model in higher education, a model in which the institution and its directors are responsible not only for their services provided but for the development and maintenance of the assets of the enterprise as well. At public institutions, state objectives for higher education include not only the production of services, but institutional viability and maintenance of the assets as well. This condition, plus the nature of the production functions of higher education, leaves states in a position of funding either activities (for example, student credit hours) or the assets and capabilities directly (for example, number of faculty in various departments). In such situations the ends-oriented accountability mechanisms are not incorporated as part of the resource allocation process. In the absence of a separately established accountability process, accountability will take the form of purely financial accountability--where the funds spent in the ways that the resource allocation mechanisms generated. If the first principles of budgeting are to be kept in tact, special attention to the accountability component is a requirement.

d. The use of the resource allocation format, as well as its form, should be generally understood. Because core funding is multi-purpose and because there is a rationale for separating the resource allocation process from the accountability device, care must be taken to insure

that there is an understanding that procedures for resource allocation from the state level to the institution is not confused with procedures for resource allocation within the institution and that neither of these are substituted for the accountability device from the institution back to the state.

e. Where special-purpose resource allocations are made, it is appropriate to search for mechanisms that incorporate accountability mechanisms directly into the resource allocation device.